CANADEXPORT

www.canadexport.gc.ca

Volume 24 > Number 11

June 15, 2006

IN THIS ISSUE > HUNGARY'S TRANSPORT SECTOR GETS A BOOST >

Corruption: The High Cost of Bad Business

What's the global bill for a year's worth of corruption in international trade? A trillion dollars U.S., say experts, which is just about equal to Canada's entire GDP for 2005.

Every year, in other words, Canada's total economic output barely covers the sum lost to criminals around the world.

Corruption is not only expensive, it's pervasive as well. It can range from small "facilitation payments" for merely signing a form, and "consulting fees" that never result in any consultation, to a million-dollar secret payment guaranteeing a mining license.

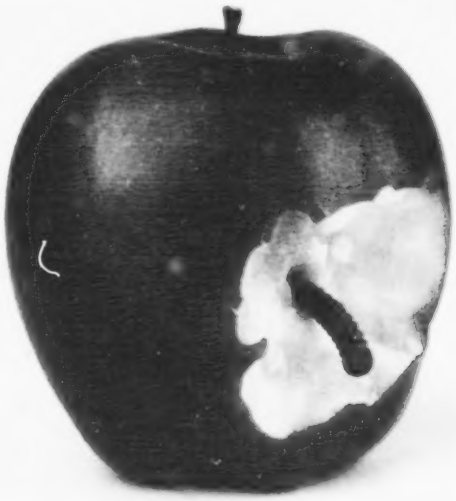
But according to Sunny Pal, corporate governance counsellor for the law firm of Lang Michener LLP, all these criminal acts are identical in one way.

"They all," Pal says, "involve the misuse of power or authority for unlawful, private gain. A frequent accessory to such corruption is bribery, in which one person secures the corrupt behaviour of another person in return for some kind of remuneration. But corruption also often exists without bribery, for example, when a person in authority misuses power for his or her own benefit."

Paying the price

The siphoning-off of a trillion dollars every year carries a high price for everyone. To begin with, it's a hidden, unproductive tax on the legitimate global economy and on the international trade of all countries. This in turn retards growth because the lost revenues aren't available for constructive purposes. Also to be taken into account, and probably just as destructive over the longer term, are the social, political and moral costs of theft on such a mammoth scale.

"In this context," observes Pal, "corruption destroys people's confidence in their political and social order. Not only that, it undermines their faith in their electoral systems—in democracy itself—because they wonder what difference an election makes if it merely puts a different set of thieves into power. And then people may start asking why



they should bother having elections at all. In other words, unchecked corruption can destroy the moral and political fibre of a country."

No legitimate company wants to do business in an environment laced with bribery and the abuse of power, but corruption remains an intractable problem despite concerted efforts to suppress it. The strongest international anti-corruption law is the 1997 OECD *Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions*, signed by 30 OECD countries and

see page 2 - Anti-corruption measures

2007-01843/

Anti-corruption measures vigorously applied, say experts

from page 1

six non-OECD countries. The Convention deals specifically with bribery, rather than with corruption in the larger sense, and requires that peer-country panels review each signatory country's performance in implementing and applying the Convention.

In Canada, the *Corruption of Foreign Public Officials Act* incorporates the OECD Convention so that anyone bribing a foreign official can be prosecuted in a Canadian court. There is also the 2003 *U.N. Convention Against Corruption*, which has now been ratified by the required minimum number of signatory countries. The U.N. Convention is therefore technically binding, although its effectiveness remains to be seen. Perhaps more effectively, the World Bank has established strict anti-corruption measures and applies them vigorously.

What can businesses do?

Corrupt practices are more common in some countries than in others. Before doing business in a particular market, an exporting company should try to assess the level of corruption it's likely to encounter. Transparency International (TI), the largest international NGO dedicated to monitoring and reporting on global corruption, can assist. Every year, TI publishes its *Corruption Perceptions Index*, which ranks countries according to the perceived level of their corruption in demanding bribes. TI also compiles a *Bribe Payers Index*, which evaluates the perceived propensity of firms from industrialized countries to bribe in the places where they do business.

Another tool developed by TI is the Integrity Pact, in which the host government and all would-be bidders for a public contract agree beforehand that no party to the negotiations will offer or accept bribes. Astounding as it may sound, TI claims to have achieved success with Integrity Pacts in some of the world's most chronically corrupt countries.

National corruption levels aren't the only factors involved, though. Some industrial sectors are well known to be more corrupt than others, like oil and gas, construction and armaments among them. A firm negotiating a deal in one of these sectors, in a country ranking poorly on the TI corruption index, should be especially sensitive to improper behaviour.

Warning flags—which can, of course, apply to any sector—might include unjustifiable delays in signing a contract, indirect messages suggesting extra compensation, or the appearance of "experts" who have no apparent expertise but must be paid for their services anyway. If such behaviour arises, the company's negotiators should be prepared to walk away from the deal. If they are to do this, however, they must be confident that senior management will support their decision.

If the worst happens

But what should a company do if it discovers that it has, unwittingly, become involved in corruption?

see page 3 - Get help if the worst happens

EDITORIAL TEAM

WEBSITE

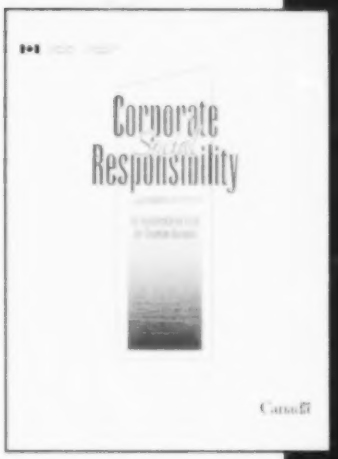
SUBSCRIPTIONS

How-to guide on corporate social responsibility

The Government of Canada has produced a primer on how to develop and implement a strategy for corporate social responsibility, as well as measure, evaluate and report on its performance.

Corporate Social Responsibility: An Implementation Guide for Canadian Business distils ideas and processes from a variety of sources, and is intended to be suggestive, not prescriptive. The first part looks at corporate social responsibility: how it is defined, the business case for it and the relationship between corporate social responsibility and Canadian law. The second part sets out a six-stage implementation framework to "plan, do, check and improve" a corporate social responsibility approach. This part also features information particular to small business. Finally, the guide looks at stakeholder engagement and the integral role they can play in implementing an effective corporate social responsibility plan.

"There is no way to avoid paying serious attention to corporate citizenship, the costs of failing are simply too high," said Michael Porter, the Harvard Business School professor speaking at last year's Business and Society Conference on Corporate Citizenship in Toronto. "There are countless win-win opportunities waiting to be discovered: every activity in a firm's value chain overlaps in some way with social factors—everything from how you buy or procure to how you do your research—yet very few companies have thought about this."



Managers in firms of all sizes operating in Canada and abroad will find this guide valuable, as will management teams, board members, front-line employees and industry association personnel who work with businesses. "The goal is to leverage your company's unique capabilities in supporting social causes, and improve your competitive context at the same time," adds Porter.

For more information, contact Kernaghan Webb, Corporate Social Responsibility Guide Project Leader, Office of Consumer Affairs, Industry Canada, email: webb.kernaghan@ic.gc.ca. To download this guide, go to http://strategis.ic.gc.ca/epic/internet/incsr-rse.nsf/en/Home.

Get help if the worst happens - *from page 2*

"First," says Pal, "seek legal advice, because what's been done is potentially a criminal act in both Canada and the other country. Second, do your best to get out of the contract, while being very careful that the reasons you give for this can't be construed as libellous—a demand for a bribe is almost always made orally and will, obviously, be denied. You'll probably take a loss, but that's preferable to criminal prosecution. And be sure to preserve your documentation."

Companies are less likely to end up in such a situation if they establish and implement a corporate anti-corruption program before venturing into risky markets. A firm wanting to do this will find very useful guidelines in TI's free publication, *Business Principles for Countering Bribery*, available on the TI website at www.transparency.org.

The guide covers issues such as political contributions, sponsorships and gifts, and suggests principles for company training, communication, internal controls and monitoring. An excellent practice is to prohibit, explicitly and from the beginning, the paying of bribes; this could be included in the company's written export objectives. The company's sales force and agents abroad will thus know that they will be backed up by their home office.

Establishing such a program, and making sure that everyone in the company understands it and follows it, will help establish strict standards of behaviour for the company. Coupled with due diligence, alertness and a disciplined sales force, this will go a long way toward protecting any firm from the potentially disastrous consequences of bribery and corruption.

Virtual Trade Commissioner

Access a World of Trade Knowledge

The Virtual Trade Commissioner brings the world to you

International success for Canadian exporters is about knowing your markets and connecting with the right people. Timely market reports, in-depth country information, up-to-date sector-specific news, business leads, online access to professionals and networking opportunities, all relevant to your interests, give you the global advantage.

And we bring you to the world

Your personal Virtual Trade Commissioner provides direct access to over 1,000 of Canada's trade experts. To help you succeed, you can arrange to meet your trade commissioner in Canada or abroad, get export financing, manage your risk with tools like credit checks of potential buyers, and close the deal with the help of contracting specialists and the backing of the Canadian government.

At your service

Your personal Virtual Trade Commissioner allows you to directly access the services of Canada's trade experts, track the progress of your requests, and build a powerful portfolio of export contacts, links and documents. And with delivery of your corporate profile to trade commissioners in over 150 offices abroad and in Canada, we truly bring you to the world—and the world to you—every time you visit.

Register and empower your international business today at:

www.infoexport.gc.ca

Hungary paves way to greater EU access and beyond

For Canadian exporters of transportation equipment and services, Hungary may be the ideal springboard to the 455 million people of the EU and beyond.

Hungary's admission to the EU in 2004 solidified its role as a gateway between the countries of the EU and non-member states. "Several of the main European transport corridors cross Hungary, making it an ideal logistical centre," says Eva Bosze, Trade Commissioner at the Canadian Embassy in Hungary. As a result of its continuously expanding network, Hungary is now considered both a target market as well as an ideal transit area for the transportation of goods to alternate markets.

Opportunities

"On the supply side, opportunities exist for exporters who can provide components and sub-systems for cars and locomotives, rail and track equipment, and signalling equipment," says Bosze, who adds that tenders have already been launched for parts of two Budapest metro projects including tunnelling, station construction, railway tracks and automatic train operating systems. Over 200 new train carriages will also be needed. "It is anticipated that another public tender will be launched for line extensions including four more stations," she says.

For consultation firms, Bosze says opportunities exist in railway privatization, property development, engineering and management, particularly in the area of technical training. "There are similar projects in neighbouring countries like Slovenia, Croatia and Romania.

Hungary's rail network has some 8,000 kilometres of track, of which only 35% is electrified. Traditionally, the government-owned railway company, Hungarian State Railways, has controlled 98% of the market. However, as part of the EU accession agreement, Hungary has committed to opening up its railway and roadway sectors to further private investment. In 2003, the domestic value of the railway sector in Hungary stood at $1.4 billion. The government has also announced an ambitious railway restructuring program.

The road to expansion

The Government of Hungary has recently introduced its Hungarian Transport Concept, a program that is expected to conclude in 2015. One of its main objectives is Hungary's integration into pan-European transportation corridors, focusing on motorways, trunk railroads, national public ports and inter-modal transport systems, as well as increasing the load-bearing capacity of roads. There will also be a focus on updating border crossings and modernizing domestic roads and railways.

A 702-kilometre roadway plan, which includes infrastructure projects like the construction of an additional 430 kilometres of expressway by the end of 2006, is currently underway. The focus has been on building high-quality expressways to help ease urban congestion while at the same time improving the European transport corridors that weave throughout the Hungarian roadway system.

Revellers in Budapest celebrate Hungary's membership in the EU on May 1, 2004.

Hungary has attracted significant foreign investment from transport operators interested in reaching the EU market through a quality regional logistics hub. This logistical potential also explains Hungary's advantages in attracting automotive parts, electronics assembly and the time-sensitive global supply chain manufacturing.

For more information, contact Eva Bosze, Canadian Embassy in Hungary, tel.: (011-36-1) 392-3360, ext. 3352, fax: (011-36-1) 392-3395, email: bpest-td@international.gc.ca, website: www.canadaeuropa.gc.ca/hungary.

Canada joins Middle East's Big 5

Dubai, October 28-November 1, 2006 > The Canadian Consulate in Dubai is seeking businesses to join the Canadian pavilion at the Middle East's largest trade show on building and water technology products and services—known as the **Big 5**.

This event is an opportunity for Canadian exporters to meet distributors and buyers looking for products and services related to building materials, water technologies, air conditioning, glass and metal, and cleaning and maintenance. Current construction spending in the region will top $700 billion, which includes infrastructure development and new commercial and residential buildings. Financed by the region's vast oil and gas wealth, these initiatives are fuelled by large increases in population and tourism.

Spaces with the Canadian pavilion will be allocated on a first-come, first-served basis so book your space before June 30, 2006.

For more information, contact Terry Gain, Big 5 Agent in Canada, tel.: (416) 932-1173, email: terry.gain@interlog.com, or Sanam Shahani, Canadian Consulate in Dubai, email: sanam.shahani@international.gc.ca, website: www.thebig5exhibition.com.

Entrepreneurial leadership, creativity and innovation management

Gatineau, September 13-15, 2006 > A university professor and bestselling author on innovation will hold an entrepreneurial leadership, creativity and innovation management workshop for Canadian exporters.

"In spite of society's increasing demand for entrepreneurial talent, nobody trains us how to discover and develop that talent in ourselves or how to manage it inside and outside organizations," says Larisa Shavinina, a professor at the Université du Québec en Outaouais.

Shavinina explains that entrepreneurial leadership, creativity and innovation are not about a business plan or venture capital for financing a start-up. "It is something significantly more fundamental." She says her workshop is designed for Canadian exporters who want to learn about entrepreneurial leadership, creativity and innovation management and apply the strategies of successful entrepreneurs to their own business.

"Entrepreneurial talent is, of course, in great demand," says Shavinina. "Talented entrepreneurs are important players in the economic success and prosperity of any country. After all, successful entrepreneurs bring innovation to life by implementing creative ideas." For Shavinina, creativity and innovation is anything but business as usual. She tells *CanadExport* that success is not possible without tapping into what she calls "creativity techniques and innovation tactics" developed by great entrepreneurs.

For more information, go to www.innocrex.com. Professor Shavinina's bestselling *International Handbook on Innovation* is the first and only handbook of its kind.

Colombia's food fair coming right up

Bogotà, August 16-19, 2006 > Canadian food and beverage exporters with their eye on Central and South America may wish to join the Canadian pavilion at **Alimentec 2006**, Colombia's biennial international food exhibition.

Alimentec is billed as an excellent event for Canadian exporters to explore and develop business opportunities in the Colombian market as well as with other South American ones. For Canadian companies already doing business there, it is the perfect occasion to strengthen existing relations.

The fair targets purchasing managers from hotels, restaurants, supermarket chains, wholesalers and distributors and food processors among others. Sought-after products include processed foods, beverages and liquors, restaurant equipment, food supplies, refrigeration and frozen foods, storage, catering and delicatessen services, and food technology.

For more information, contact Juan Carlos Navia, Canadian Embassy in Colombia, tel.: (011-571) 657-9856, email: bgota-td@international.gc.ca, website: www.alimentec2006.com.

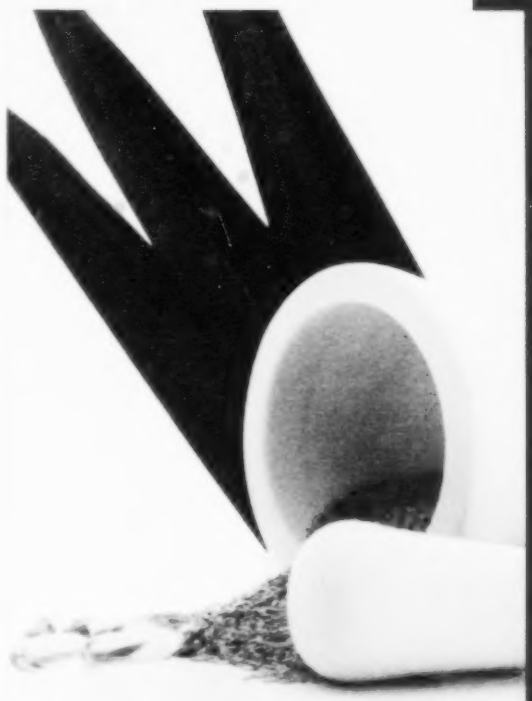
Japan an ideal market for health ingredients

Tokyo, October 4-6, 2006 > Canadian companies looking to explore opportunities in Japan's booming health food market may wish to be part of the Canadian pavilion at **Health Ingredients Japan**, the country's biggest exhibition of its kind. Last year, the fair welcomed some 45,000 visitors.

The Japanese market is made up of some 128 million consumers who are very knowledgeable about the benefits of healthy food ingredients, functional foods and nutraceuticals. According to *Functional Foods Japan*, a report on nutrition, the Japanese nutraceutical market is estimated to be worth $27 billion. Moreover, Japan is the second-largest market in the world for nutraceutical products, second only to the United States. In fact, Japanese per capita consumption of nutraceuticals is actually higher, at $166 per year, with the U.S. at $136 and Europe at $92.

The market is also growing fast for the nutritional supplement sector. As deregulation in Japan continues, demand for Western ingredients gets ever stronger. In 2005, the Japanese nutritional supplement market accounted for some $12 billion in sales.

For more information on the Canadian pavilion, contact Anne Woo, Agriculture and Agri-Food Canada, tel.: (613) 759-7857, fax: (613) 759-7840, email: wooa@agr.gc.ca, websites: www.hijapan.info and www.functionalfoodsjapan.com.



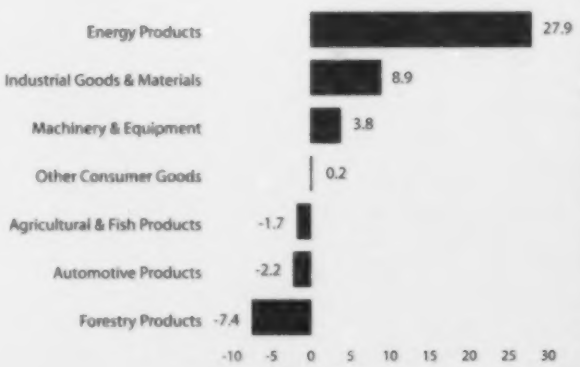
FACTS & FIGURES

Canadian trade doing well despite dollar's appreciation

The Canadian dollar appreciated a full 7% against the U.S. dollar over the course of 2005. Despite this, exports of goods and services to the U.S. grew 4.1% to total $402.7 billion in 2005. Additionally, Canada's overall exports reached a record high of $516.4 billion, surpassing the previous record set in 2000 of $489 billion. With respect to trade in goods, this growth was driven primarily by energy products and industrial goods, resulting in the goods trade surplus remaining roughly stable at $66.7 billion. Notable is the fact that trade with the U.S. was responsible for the entire surplus: the trade surplus with the U.S. rose to $110.6 billion, while the trade deficit with the rest of the world widened to $43.9 billion. Although the rising dollar has raised concerns about the impact on Canadian exports, Canadian exports of goods and services grew by 5.2% in 2005.

Provided by the Current and Structural Analysis Division. For more information, see the State of Trade 2006 *at www.international.gc.ca/eet.*

Growth by Sector: Canada's 2005 Exports of Goods



Data: Statistics Canada, balance of payments basis.

CULTURAL INDUSTRIES TRADE EVENTS

ABORIGINAL

ImagineNATIVE Media Arts Festival
Toronto, Ontario
October 19-23, 2006
www.imaginenative.org

BOOK PUBLISHING

Beijing International Book Fair
Beijing, China
August 30-September 2, 2006
www.bibf.net/bibf

Moscow International Book Fair
Moscow, Russia
September 6-11, 2006
www.mibf.ru/english

Liber International Book Fair
Madrid, Spain
September 27-29, 2006
www.liberbcn.com

Frankfurt Book Fair
Frankfurt, Germany
October 4-8, 2006
www.frankfurt-book-fair.com

Salon du Livre de Montréal
Montreal, Quebec
November 16-20, 2006
www.salondulivredemontreal.com

CONTEMPORARY CRAFT

Philadelphia Museum of Art Craft Show
Philadelphia, Pennsylvania
November 2-5, 2006
www.pmacraftshow.org

SOFA, the International Expositions of Sculpture Objects and Fine Art
Chicago, Illinois
November 10-12, 2006
www.sofaexpo.com

FILM, VIDEO, TELEVISION AND BROADCASTING

World Film Festival
Montreal, Quebec
August 24-September 4, 2006
www.ffm-montreal.org

Toronto International Film Festival
Toronto, Ontario
September 7-16, 2006
www.bell.ca/filmfest

Atlantic Film Festival
Halifax, Nova Scotia
September 14-23, 2006
www.atlanticfilm.com

Vancouver International Film Festival
Vancouver, British Columbia
September 28-October 13, 2006
www.viff.org

MIPCOM, the International Film and Program Market for TV, Video, Cable and Satellite
Cannes, France
October 9-13, 2006
www.mipcom.com

American Film Market
Santa Monica, California
November 2-12, 2006
www.afma.com/AFM/afm_home.asp

SOUND RECORDING

Country Music Week and Awards
St. John, New Brunswick
September 8-11, 2006
www.ccma.org

PopKomm Berlin
Berlin, Germany
September 20-22, 2006
www.popkomm.de

Western Canadian Music Awards
Winnipeg, Manitoba
October 19-22, 2006
www.westerncanadianmusicawards.ca/index.html

World Music Expo
Sevilla, Spain
October 25-29, 2006
www.womex.com

VISUAL ARTS

Art Forum Berlin
Berlin, Germany
September 29-October 4, 2006
www.art-forum-berlin.de

Frieze Art Fair
London, United Kingdom
October 12-15, 2006
www.friezeartfair.com

Foire international d'art contemporain FIAC (International Contemporary Art Fair)
Paris, France
October 26-30, 2006
www.fiacparis.com

Art Cologne (Modern and Contemporary Art Fair)
Cologne, Germany
November 1-5, 2006
www.artcologne.de

Toronto International Art Fair
Toronto, Ontario
November 9-13, 2006
www.tiafair.com

Art Basel Miami
Miami, Florida
December 7-10, 2006
www.artbaselmiamibeach.com/ca/cc/ss

ENQUIRIES SERVICE

International Trade Canada's Enquiries Service provides departmental information, publications and referral services to Canadian exporters. Contact us at: 1 800 267-8376 (National Capital Region: (613) 944-4000), TTY: (613) 944-9136, email: enqserv@international.gc.ca, website: www.international.gc.ca.

(T) 05452

ID#: MICROME00001
IHS/MICROMEDIA LIMITED
GOVERNMENT PUBLICATIONS/CRI
20 VICTORIA STREET
TORONTO ON M5C 2N8

Return requested if undeliverable:
CanadExport (CMS)
125 Sussex Drive
Ottawa, ON K1A 0G2
Canada Post Agreement Number 40064047